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FEDERAL RESERVE BANK OF PHILADELPHIA



PRESIDENT'S ANNUAL REPORT OPERATIONS FOR THE YEAR 1966

FEDERAL RESERVE BANK OF PHILADELPHIA

PHILADELPHIA, PENNSYLVANIA 19101

OFFICE OF THE
PRESIDENT

March 16, 1967

The Board of Directors of the
Federal Reserve Bank of Philadelphia, and
Member Banks of the Third Federal Reserve District

In the past the President of this Bank has submitted a report on each year's operations to the Board of Directors. This year we are extending distribution to include our stockholders, the member banks of the Third Federal Reserve District.

I hope the following report not only provides information about what the Bank did in 1966, but gives the reader a better idea about our internal structure and departmental functions. And, through the medium of photography, it will introduce some of our employes.

Overall, 1966 was a year of heartening progress. The Bank added new equipment, improved operating techniques, simplified forms and procedures used in transactions with member banks, and generally increased efficiency. Although Bank employment dropped to the lowest level since World War II, we processed more work than ever before. For example, the Department of Collections cleared 274 million checks, an all-time high. Wire transfers of funds increased 12 per cent, letters of credit issued by the Government Bond and Custody Department more than doubled, and the Data Processing Department handled a significantly larger volume of Federal taxes.

A record number of banks participated in our popular Functional Cost Analysis program. One-third of the member banks in the District borrowed here in 1966, compared to one-fourth in 1965. The Research and Public Information Departments expanded contacts with educational institutions and the general community, reaching more people at meetings and through publications than in any previous year. Indeed, it was the rare department that did not experience increased or record activity during the year.

In spite of this growth in "production" in 1966, I feel that our employes maintained the high standards of service that are traditional with the Federal Reserve Bank of Philadelphia.

Karl R. Bopp
President

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THIRD DISTRICT BUSINESS AND BANKING HIGHLIGHTS

The Third District economy continued to expand during 1966. Labor was in short supply and recruiting skilled and even semiskilled workers became a serious problem.

Unemployment, at 2.7 per cent of the labor force, reached its lowest point since 1953. The rate in all 15 of the major labor market areas in the District dropped drastically in 1966 with only five remaining above the national rate.

Increased productivity and industrial capacity helped accommodate the rising demand for goods and services. Nevertheless, prices continued upward. The consumer price index rose 2.8 per cent over the year and the cost of living threatened to go even higher in 1967.

One weak spot for the District, as for the country as a whole, was residential construction. Housing starts here declined 12 per cent from 1965.

During the first half of 1966 net loans of all District banks rose at a rate comparable to that in the Nation. They expanded at a much slower rate during the second half. The growth of loans in city banks fell somewhat behind the country bank rate. To obtain funds, both city and country banks liquidated securities, most frequently short-term Governments.

Time deposits in District banks increased by 13.8 per cent during the year, about the same pace as in 1965. Demand deposits, on the other hand, were subject to wide fluctuations and remained approximately at the year-ago level. Total deposits were up about 7 per cent in both the District and the Nation.

DEPARTMENTAL REPORTS

Accounting operations include maintenance of the Bank's general books, General Account of the Treasurer of the United States, expense and disbursement records of the Bank, and preparation, recording, and distribution of budget and expense data by function and department. Other operations include continuous analysis of member bank reserve accounts to insure compliance with System regulations; maintenance of member bank reserve account statement files; settlement of group and wire clearance plans; collection and reconciliation of payments received for checks sent to

District country banks; reconciliation of accounts with other Reserve Banks; securing payments for services rendered Government agencies; and transfer of funds by wire and mail for member banks. In addition to operating the Bank's leased wire telegraph services, connected with the Board of Governors, all other Reserve Banks and Branches, and the Treasury, the department utilizes commercial wire services, and a closed circuit teletypewriter system for receiving transfer requests from six Philadelphia banks.

Accounting



Al Curley and Kay Rush, Accounting Department, look up the facts as Agnes Boady relays a member banker's inquiry about his reserve position.

Members of our Accounting Department didn't have to look at graphs of interest rates in newspapers to know that 1966 was a tight money year. They could tell from the records of their own operations.

In the first place, requests for telegraphic transfer of funds reached record proportions during the year, scoring a 12 per cent rise from 1965. This was the biggest increase in any recent year. The 1966 volume indicates that

bankers were making money move faster and thus work harder.

The continued increase in wire transfer activity prompted changes in facilities and personnel. System-leased wire circuits were rearranged to provide a direct line to the switching center in Richmond, Virginia; one person was added to the staff, and plans were made to install additional teletype equipment that will receive messages from banks in Philadelphia.

Every little economy helps when money is tight. In addition to a continuing increase in the use of wire transfer facilities, more member banks became interested in saving time in the collection of out-of-district checks. As a result, direct sending activity achieved a new high for the fifth year in a row.

The increase in member bank reserve deficiencies was further indication that bankers were playing things closer to the line. Deficiencies were up ten per cent for the year, probably because, with money scarce and rates high, it was just too expensive to leave a margin of

excess funds.

To expedite an increasing workload in the Adjustments Division, a new preprinted form was devised that identifies and explains the nature of various discrepancies. The form has streamlined our procedures and affords member banks a convenient document for resolving adjustments.

The Board of Governors changed Regulation D during 1966 to require higher requirements on certain time deposits in excess of \$5 million. As a result, we revised our reserve computation manual, permitting separate and accurate computation of reserves for these deposits. Copies of the revised manual were distributed in December.

During the year this Bank participated in a Systemwide survey conducted to determine the elements of "float" more accurately. By analyzing the various components, the Federal Reserve hopes to devise means of controlling or reducing the amount of float.



Joan Anne Butts, seated left, Karen Bello, standing at receiving station, and Jackie Ryan, sending, operate valuable Wire Transfer service for member banks and their customers.

MOVEMENT of FUNDS

	1966		1965	
	Number of items	Dollar Value (millions)	Number of items	Dollar Value (millions)
Transfers of Funds	232,991	\$192,718	207,987	\$167,181
Outgoing	76,826	82,282	73,131	73,076
Incoming	81,279	76,048	68,175	63,736
Intradistrict	74,886	34,388	66,681	30,369
Direct Sendings	428,862	\$ 44,659	402,763	\$ 43,003

Under the supervision of the Vice President and General Auditor, who is directly responsible to the Board of Directors through its Audit Committee, the Audit Department conducts audits and examinations of the various departments and functions of the Bank. The frequency and extent of these audits and examinations

are in conformance with the minimum frequency schedule as approved by the Audit Committee of the Board of Directors. Reports of all audits, examinations, and special investigations are submitted to the Audit Committee monthly or more frequently if required by the Committee.

Audit



A blackboard helps Paul Kirn, Jr., conduct a pre-audit training session for members of our Audit Department.

In recent years, the changing concept of the functions of an auditor has led to a new philosophy. His approach to the job is more positive, and he seeks the cooperation of operating personnel. He has in mind the total objectives of management, not just the limited purpose of any single audit.

Vice President and General Auditor G. William Metz summarized these principles in a recent address to a NABAC Conference: "Let every audit be a creative one, developing meaningful information which will ultimately effect improvement. We must prove to operating management that audit's role is an aid, rather than a deterrent, to overall progress."

In our auditing, operating procedures are reviewed with an aim toward lessening the risk by improving internal controls. *Lessening the risk*, according to Mr. Metz, is the prime reason for recommending change. The scope

and intensity of the internal audit program is predicated on the soundness of internal controls and procedures as disclosed by the auditor's continuing review.

Departmental management knows best how to conduct operations from an efficiency standpoint, and audit will not intrude in this area. Here at the Federal Reserve Bank, the auditor is not only independent of operational management, but also refrains from becoming engaged in jobs of an operational nature.

Much as modern police work has shifted its emphasis to preventing crime, today's auditor strives to eliminate those conditions that encourage defalcations. This concept serves the dual function of protecting the institution and its employes by minimizing the opportunity for embezzlement.

Auditing as practiced now requires high-caliber personnel. Ideally, auditors should have a broad outlook, not restricted by methodology or tradition, but possessing sound judgment and imagination. As a part of management's team, internal auditors develop an acute awareness of the attitudes of others. Tact and diplomacy are as much a part of their credentials as their education.

The Audit Department not only serves this Bank, but also furnishes numerous lists of securities, confirmations, and other data to member banks, supervisory authorities, accountants, and other authorized individuals. Direct verification of balances and transactions with members banks and others with whom this Bank transacts business is an effective audit tool. Audit may also be called upon by member banks for other services of a nonroutine



It is the policy of this Bank to conduct an examination, in cooperation with the respective State banking authorities, of every State member bank in the District during each calendar year. The field work of the Bank Examination Department also includes (1) examinations of nonmember banks applying for membership, (2) examinations for the Federal Reserve Board of Edge Act Corporations located in this District, (3) investigations of applications of State member banks for branch offices, (4) examination of off-premises data processing service centers under the provisions of the so-called "Bank Service Corporation Act," and (5) investigations in connection with applications to merge, consolidate or purchase assets and assume liabilities. Supervisory responsibilities of the department include

processing of applications for mergers when the surviving bank is a State member bank, rendering of opinions to the Board of Governors of the Federal Reserve System on competitive factors in connection with mergers when the surviving bank is a national or State nonmember insured bank, processing of reports regarding criminal violations, processing of applications to form Edge Act Corporations, and providing information on regulations issued by the Board of Governors of the Federal Reserve System.

The department also does certain analytical work on various reports and statistical data and does the initial processing of adjustments in member bank holdings of Federal Reserve Bank stock.

Bank Examination



Assistant Vice President Joe Case, center, and Examining Officer Tom Desch, right, find something to chuckle about in examiner Steve Ondeck's latest report.

The number of State member banks in the District decreased by six during 1966. Two State member banks merged together, two merged with national banks, and three withdrew from membership.

Over the year the number of national banks dropped by 15. One merged into a State member bank, 11 were merged or consolidated

with other national banks, and three merged into State nonmembers.

At the close of 1966, 36 State member banks were subject to examination by our Bank Examination Department. Of these, 24 had trust departments; 15 operated one banking office and 21 had two or more offices. The total number of State member bank offices increased by six during the year to 269.

All State member banks in the District were examined during 1966.

The department processed one application under the Bank Merger Act, where the surviving bank was a State member bank in 1966. We also prepared 22 opinions on the competitive factors involved in merger proposals where the surviving institutions would be national or State nonmember insured banks.

There are four Edge Act Corporations in this District. Three of them have affiliated corporations. The corporations and affiliates were examined by the department in 1966, although technically our examiners functioned as direct representatives of the Federal Reserve Board.

DISTRICT MEMBER BANK STRUCTURE

	1966	1965
	As of December 31	
	(Dollar amounts in millions)	
State Member Banks		
Number	36	42
Assets of Commercial Depts.	\$5,366	\$5,158
Assets of Trust Depts.	\$8,117 ¹	\$7,466 ¹
National Banks		
Number	350	365
Assets of Commercial Depts.	\$10,139	\$9,401

¹ Based on book values which usually are substantially less than real values.

Objectives of the Bank Relations function are to promote better understanding of services, operations, and policies of this Bank and the System, and to increase our awareness of area trends and of bankers' problems and attitudes. The function's programs include (1) regularly scheduled visits to all country banks, (2) special visits upon request, (3) preparation of inter-

nally circulated reports based on such visits, (4) annual field conferences, (5) participation and attendance at bank-related meetings and conventions, and (6) preparation of special information for member banks, such as the Functional Cost Analysis studies and other analyses.

Bank Relations

The Bank Relations Department provides liaison between member banks of the District and our various operating departments. By improving contacts and relationships with banks, the department contributes to the high level of performance of this Bank. Spending much of their time in the field, our Bank Relations men often serve as speakers, information gatherers, listeners, and problem-solvers. Programs consistent with these efforts were continued in 1966.

Bank Visits An experienced field representative visited each country bank in the District at least once in 1966. Each member banker received a folder showing our services available, trend charts of his bank's major assets and liabilities, a ratio study of his nonearning assets, and other pertinent data. This material helps members understand their operations better and their relationships to the Federal Reserve.

A majority of member banks are acquainted with this Bank's services and many tend to make good use of them. We also know that District member bankers carefully analyze the ratio studies and other data we provide them. Partly as a result of the assistance given by our personnel, members also have tended to use their accounts at this Bank more fully.

Field Conferences As in the past, we held ten regional field meetings in the District. Nearly 1,900 guests attended, representing ninety-two per cent of the 550 banks invited. Officers of this Bank addressed the meetings on the general theme, "The Economy Turns a Corner," presenting their views on current economic developments and Federal Reserve policy.

Other Meetings Staff members and officers of the Bank attended Pennsylvania, New Jersey,



Field Representatives George Haag (in car) and Adam Smith discuss weather and road conditions before leaving to visit District banks.

and Delaware Banking Associations and group meetings, and many other bank-sponsored gatherings. This Bank and the Federal Reserve Bank of New York again hosted a luncheon during the New Jersey Bankers Association convention in Atlantic City, N. J.

Functional Cost Analysis In 1964, we adopted a Functional Cost Analysis Program as a service to member banks in the Third Federal Reserve District. We were the third Reserve Bank to offer the program; now, most Reserve Banks do. Fifty-two member banks participated in the 1964 analysis program; 64 participated in 1965; and 80 are expected to participate in 1966. Basically, the program provides member banks with an analysis of their costs by function and comparative data for groups of banks with similar-size functions.

This function provides the business community and the public at large with information about the Federal Reserve System and its policies, this Bank, and the District and national economies. In cooperation with other departments, officers and staff members write articles, deliver speeches, organize seminars, and represent the Bank at various conferences. Improvement of

economic education in local high schools and colleges is a major objective. Public Relations personnel prepare and distribute press releases emanating from the Bank and maintain personal liaison with communications media. Guided tours of the Bank are conducted on a regular basis.

Public Relations

The public relations function in this Bank has little to do with the gilding of institutional images as so often is the task of public relations men elsewhere.

Instead we are concerned with education. Most of our contacts with schools, the business community, and the general public are designed to impart factual information about this Bank, the Federal Reserve System, and the current economic environment in which monetary policy must operate.

High Schools Our Series for Economic Education publications deal with issues such as automation, the national debt, and poverty. The series consists of eight short, simplified pamphlets designed for high school students and other unsophisticated readers. Over 4.2 million copies have been distributed free of charge since the series began in 1962. About 2,700 people were conducted on tours of the Bank last year, the majority of them high school students.

We again cooperated with the Delaware Valley Council on Economic Education in our continuing effort to increase the effectiveness of economic instruction in District high schools. We hosted an all-day meeting in our Whittier Room which was attended by about 100 area teachers. Several of our officers participated in the program.

Colleges The Bank organized and conducted four seminars for college economics teachers in the autumn of 1966. The meetings were held on State college campuses and total attendance was about 160. Economists from our Research Department made brief presentations, which were followed by vigorous discussion. In addition,

about 150 college teachers attended the Bank's spring Field Meetings series; and late in the year, a number of prominent professors participated in a seminar at the Bank led by George Mitchell, a member of the Board of Governors.

Many of the Bank's publications are distributed free to colleges and demand for them continued strong during the year. They include: *The Quest for Stability*, *Defending the Dollar*, and *Is the Money Supply all that Matters?*

The Business Community In August we held a luncheon for Andrew Brimmer who had been recently appointed to the Board of Governors. About twenty-five leading Philadelphia area business executives attended.

The usual spring and fall roundtable discussions were conducted in the Bank for local business economists. Representatives from about twenty major firms participated.

The General Public Members of the Bank's staff made 202 speeches during 1966. They addressed a variety of organizations, ranging from bankers' conventions and professional associations to women's clubs. Rotary, Kiwanis, and other service clubs, however, made up the majority of all audiences. The System movie "Money on the Move" was shown 410 times in the year to a total of almost 25,000 people.

The Press The Public Relations Department began holding periodic press conferences during the year. Conducted on an off-the-record basis, they provided an opportunity to give local business writers background information on current monetary problems and decisions.

The Building Department is responsible for the care, cleaning, operation, and maintenance of the physical plant, including rented space. Its staff maintains and operates air-conditioning and other mechanical equipment, repairs and fabricates special devices for ten

operating departments, and does painting work throughout the Bank. Plant maintenance and services include around-the-clock leeway for day-to-day developments in Bank operations.

Building

There are people aware of the Federal Reserve System's semiautonomy who assume that there is no really effective control over the spending of the Reserve Banks. This is false.

The System has a very efficient cost control mechanism. Four times each year the Board of Governors makes exhaustive comparisons of the expenses of all Reserve Banks. In minute detail, the Board ranks the 12 Banks and their branches by all categories of expenditures. A Bank that compares unfavorably in any given

function feels strong pressure to cut costs and improve its relative position. Competition between the Reserve Banks thus serves as a spur to efficiency much as competition between firms does in the private sector of the economy.

In 1966, this Bank took a hard look at the expenses of its Building Department vis-a-vis similar expenses in other Reserve Banks. Although we receive frequent compliments on the appearance of our premises, it appeared that this Bank was paying too high a price for



Chairman Larry Murdoch, center, and members of the Provision of Space committee, consider recommendations to lower costs without reducing quality of our housekeeping.

good housekeeping.

As a result, the First Vice President formed a committee of Bank officers and staff members under the chairmanship of L. C. Murdoch, Jr., to appraise the Bank's provision of space function. He directed the committee to report and defend those practices it deemed sound and recommend any changes found advisable.

The committee's investigation lasted several months. A quantity of statistical information was prepared and analyzed by a staff of employes on loan from other departments. Committee members closely observed provision of space functions in this Bank and visited other Reserve Banks to see how they performed similar tasks. (Although Reserve Banks compete keenly for low-cost rankings, there is a traditional willingness to share information about operating procedures.)

In July, the committee reported that, "On a per square foot basis . . . our provision of space costs are relatively high and our rank among other Reserve Banks is poor." Some factors, such as the density of the Bank's population, the age of our building, and local wage rates, contribute to higher costs and are beyond the control of management. "Nevertheless,"

the report went on, "substantial opportunities exist to reduce our p.o.s. costs and improve our System ranking." The committee then made 20 recommendations which were intended to cut costs without compromising our high standards of building operation and maintenance.

The recommendations were considered carefully by the First Vice President and the management of the Building Department. A number of them were put into effect. Apart from its specific recommendations, the study also served to promote a general attitude of cost consciousness among all levels of Building Department personnel.

The Board's latest rankings provide an example of how competition among the Reserve Banks, supplemented by this Bank's technique of investigation by a committee of "internal consultants," can increase efficiency. In 1965, this Bank's "housekeeping" costs were \$.95 per square foot. In 1966, the figure dropped to \$.82.

It is planned to reactivate the committee from time to time to analyze and report on this Bank's provision of space costs.

OPERATING THE PLANT

	1966	1965
Building Department Expenses	\$935,225	\$1,135,706
Building Department Employees (year end)	74	79

The Cash Department maintains an inventory of Federal Reserve notes, Treasury currency, and coin to meet demands of banks in the Third Federal Reserve District. Currency and coin move into and out of circulation through banks in response to increases and decreases in public demand. All bank orders for cash are charged, and all cash shipments are credited, to

member bank reserve accounts. The Post Office Division of the Cash Department operates under United States Postal Regulations by contract agreement. It processes incoming and outgoing registered mail containing coin, currency, and securities, and certified mail.

Cash



Currency Counting's Vera Petty counts, sorts, and looks for counterfeits among \$1 bills received from member bank. Each strap of 50 or 100 notes must check out before operator goes on to next strap.

Bad news makes headlines; good news seldom appears on the front page. Thus, little public notice has been given to some heartening good news. The coin shortage ended in 1966.

Or almost ended. Despite production of more than 550 million Kennedy half dollars since 1964, they still do not circulate freely. Very few are returned to this Bank for recirculation, and new supplies must continue to be rationed. Although this coin by law will be minted for 25 years, and now contains more copper than silver, it has lost none of its appeal as a memento of a martyred President. Not only is it hoarded at home, but many millions evidently go abroad, never to return.

Working 24 hours a day, seven days a week, the Mints in Philadelphia and Denver, and the Assay Office in San Francisco have produced so much other coin that this Bank, and other Reserve Banks, now can maintain an ample

inventory of pennies, nickels, dimes, and quarters. However, real proof that the shortage had ended was in the \$43 million of excess coin deposited by Third District banks in 1966, a 434 per cent increase over the previous year.

In order to provide better service to banks and to increase our internal efficiency, we expanded our coin storage facilities some 300 per cent in 1966. We built a new vault to accommodate our larger inventory and to centralize operations, and we employ the latest in power equipment to move bags of coin.

Currency, too, made news in 1966. In past years, before we destroyed unfit Federal Reserve currency, we had to sort it by bank of issue in order to receive credit for our notes. Now we destroy it unsorted, receiving credit on a formula based on the new notes issued by this Bank as a percentage of the System total. This one change has increased the efficiency of the operation by about 20 per cent.

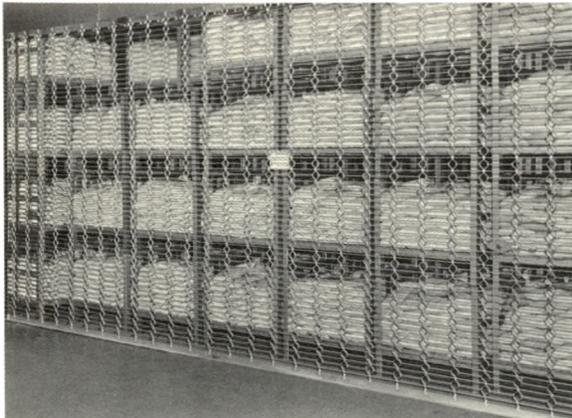
And it is a good thing we did increase our efficiency—receipts and shipments of notes were 11 per cent higher in 1966 than in 1965. Much of this increase derived from greater business activity in the Third Federal Reserve District. That is the kind of increase we are glad to see, and we will welcome more of the same in 1967.

One final note, or should we say, one note is final. The issue of \$2 bills was discontinued in 1966. Many bankers, we are sure, are pleased that this “headache” denomination has become a collector’s item.

COIN SHORTAGE ENDS

	1966 (Millions)	1965 (Millions)	1964 (Millions)
Coin Inventory	\$6.1	\$4.2	\$0.9

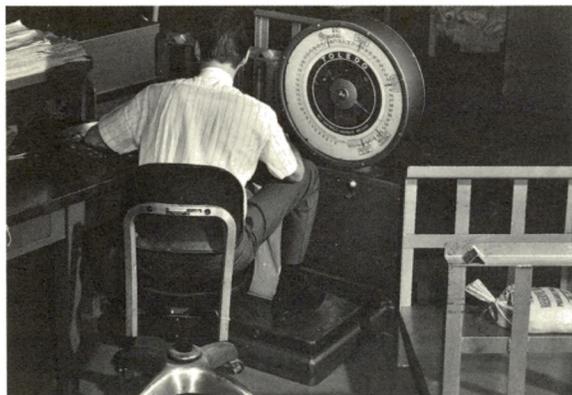
New Coin Vault



Metal grid protecting new coin storage facility permits visual identification of coin in locked enclosure, telescopes overhead for easy access.



Cash Department's Gene Verdone uses "low lift" to position two shipments of coin for contract carrier pickup.



Coins are sorted, counted, weighed, and re-bagged by John Reynolds. Mutilated coins are sent to the U.S. Treasury to get credit for metal content.



Double set of electrically controlled doors, under Guard Force surveillance, leads from coin storage area to underground pickup point. One set must be closed before other set is opened.



Bernard Lawville uses power hoist to lower coin crib in preparation for shipment to banks. Grid at left is under audit control, and is sealed.



Contract carriers load their trucks in our lower level garage, and coins are on their way to member banks. Security measures are excluded from photo.

Federal Reserve Banks are authorized to destroy unfit United States paper currency for the account of the

Treasurer of the United States and Federal Reserve notes following their verification.

Currency Destruction



Currency Verification Unit's Cliff Weaver, foreground, bands unfit notes at delivery end of punch press, as George Fahy feeds the machine and Joe Moritz watches the operation as a security check.

Some years ago this Bank had a contract with a local undertaker to use his crematorium to burn unfit currency. The arrangement was costly, inflexible (we often had to wait our turn), and entailed unnecessary risks handling money off the Bank's premises.

In the early 1950's, we built our own currency incinerator behind the cafeteria on the fifth floor. Visitors always gasp, and once in a while a tear trickles, as they peer in a window and watch bills descend slowly into the flames.

Several changes in Treasury regulations increased the use of the Bank's incinerator in 1966. During much of the last half of the year it was working near full capacity—two burnings a day. About 500,000 notes can be destroyed at one burning which takes several hours.

The first change occurred on June 1, 1966, when we, along with the other Reserve Banks, were authorized to verify and destroy unfit one dollar Federal Reserve notes here. This change was anticipated for some time and, as a result of a Systemwide agreement, we had a two-year accumulation of such notes on hand in June. By year's end, this backlog had been burned away to almost nothing.

Previously this Bank was required to cut in half unfit Federal Reserve notes of \$5 and up. We shipped the lower halves to the Treasury immediately and then sent the upper halves several days later when the Treasury acknowledged receipt of the lowers. Then, in late June, we were permitted to burn the retained uppers here instead of sending them to Washington.

In December 1966, the procedure was changed again. Now we perforate, verify, and destroy whole unfit \$5 and \$10 Federal Reserve notes, as well as \$1's, without sending any part of them to Washington. Only \$20's and higher denominations still must be sliced in half and the lower halves shipped to the Treasury.

These changes keep the home fire going and run up our gas bill, but by speeding and simplifying the entire destruction process, they have provided substantial savings in operating costs.

CURRENCY DESTROYED (PIECES)

		1966 (Thousands)	1965 (Thousands)
Silver	1's	6,699	39,094
Silver	5's	316	1,361
Silver	10's	26	73
U. S.	2's	51	107
U. S.	5's	796	1,155
F. R.	1's	79,022	—
F. R.	5's	1,185	—
F. R.	10's	1,516	—
	TOTAL	89,611	41,790

The Federal Reserve Agent controls custody and issuance of Federal Reserve currency. Required supplies of Federal Reserve notes, by denomination, are estimated annually; notes are requisitioned from Washington and stored in vault space assigned to the Agent.

These notes are issued to the Bank on order of the Cash Department, supported by pledge of acceptable collateral. Day-to-day operations are conducted by the Assistant Federal Reserve Agent, three Alternate Assistant Federal Reserve Agents, and a Statistical Clerk.

Federal Reserve Agent

We issue paper money—Federal Reserve notes—to meet public demands. But before we can distribute currency to member banks through our Cash Department, we must obtain it from the District Federal Reserve Agent who is also Chairman of the Bank’s Board of Directors.

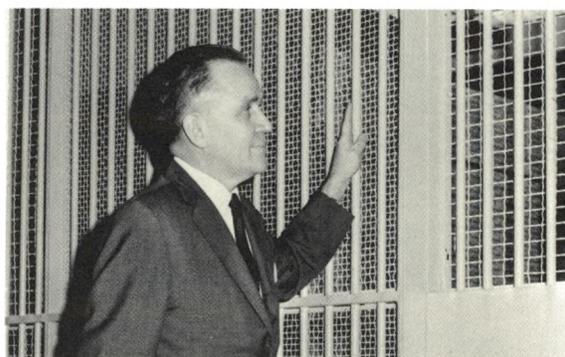
Each year, the Agent and his assistants, employes of the Bank, estimate the need for currency based on yearly turnover and a minimum two-year supply for emergency use. An annual requisition is made to the Board of Governors in Washington, D. C., which, in turn, submits System requisitions to the Treasury Department. The notes are then distributed periodically to each Federal Reserve Bank.

Many times during the year, a Brink’s armored carrier with six armed guards aboard arrives at one of the Bank’s entrances. An electrically controlled door opens on signal to admit the truck. Once inside the Bank building, the truck is met by Bank guards and the Agent’s representatives.

Locked canvas pouches are wheeled into the vault area and numbers on the pouches are checked against the manifest. Then, they are opened. The packages inside are slit to expose straps of bills which are counted separately by the Agent’s representatives, Bank officers, and members of the Audit Department.

Once verified, the notes are stored in the Agent’s compartment within the vault. Three combination locks secure its door; one combination is known by a selected member of the official staff, another by an Agent’s representative, and the third by a member of the Audit Department. Opening the compartment requires that each combination be dialed independently.

The notes are not “monetized” until our Cash Department makes a request for new currency, supplies appropriate collateral, and the Agent releases it for storage in another compartment of the vault under control of the Cash Department.



Assistant Federal Reserve Agent E. D. Kerns looks over stock of unissued Federal Reserve notes in Bank’s south vault. Currency must be collateralized with gold and securities before it is circulated.

THE AGENT’S ACTIVITY

	1966 (Millions)	1965 (Millions)
Inventory of Notes Beginning of Year	\$525.1	\$478.0
Notes Received During Year	629.4	596.0
Notes Issued to Federal Reserve Bank During Year	533.9	548.8
Inventory of Notes End of Year	\$620.6	\$525.2

Federal Reserve Banks provide, on a nationwide basis, a system for the clearing and collection of checks and other cash items, and for the collection of noncash items such as drafts with documents attached, coupons, and securities. Fast processing and presentation of MICR qualified cash items and checks are achieved by the efficient use of automated reading and sorting

equipment.

The Department of Collections also handles and processes return items, adjustment of cash letters, food stamp coupons, and claims for refunds on previously paid items.

These services are extended directly to member banks and agencies of the Federal Government.

Collections



Annette Johnson, left, and Mary Powers “man” one of our reader-sorters. In 1960 we pioneered use of high-speed equipment for checks, now we process one million per day on the fourth generation of these machines.

The largest department in the Bank is headquartered on the third floor of our building. It employs one-third of the Bank staff and operates around the clock.

This is the Department of Collections. In the great “paper check” society, the department’s main job is to process checks coming into the Bank within specified deadlines and cut-off times. Often, this isn’t an easy task. Every year the volume of checks continues to grow. In 1966, for example, the department handled 274.1 million checks, up more than five per cent from the previous year. This is an average of better than one million checks per working day.

Presently we are using a fourth family of computerized check-handling equipment—three IBM 1979 Bank Transit Systems—to handle the flow of checks. Since 1961, when we introduced CHIPS (Check Handling Information Processing System), each new system has enabled us to apply procedures and systems that refined operating techniques, reduced unit costs, and improved services to

member banks. As a result, nearly ninety-four per cent of city and country check volume was processed through our high-speed systems in 1966.

A large part of the success of the CHIPS operation is attributable to cooperation from bankers and others in preprinting routing-transit symbols and encoding amounts in magnetic ink. Preprinted checks received in cash letters here reached an estimated ninety-nine per cent of total volume; amount-encoded checks, eighty-six per cent.

To identify those who still are using checks without magnetic ink encoding in the routing-transit field, the department makes facsimiles of their checks and sends them to payor banks. This enables bankers to contact customers and urge the printing of the bank identification in MICR on all checks before September 1, 1967, when nonmagnetically imprinted checks will be treated as noncash items in accordance with provisions of our Circular Letter 2176 of August 5, 1966.

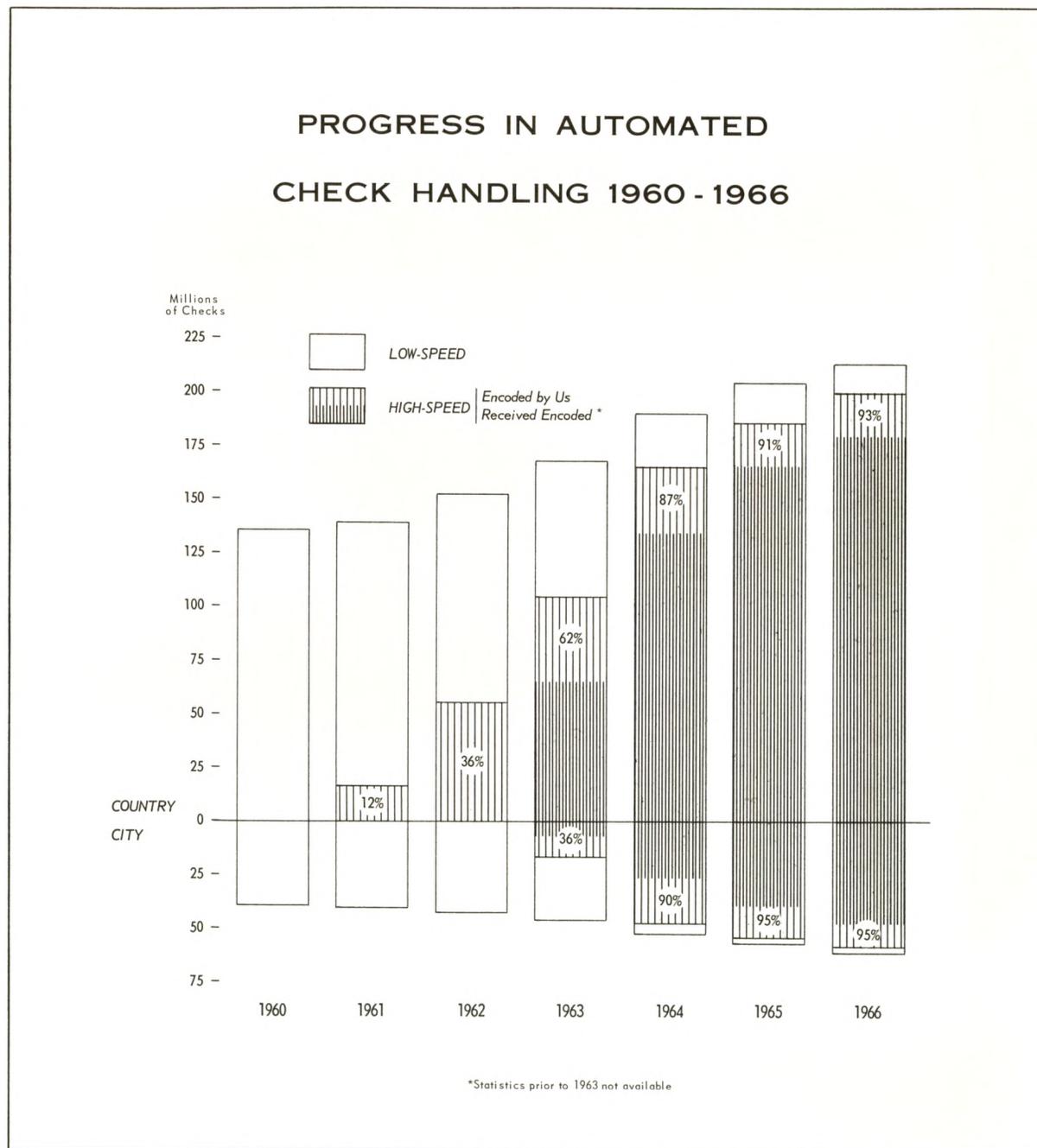
Member banks are also making greater use

of fully qualified MICR items. During the year, fifty-six banking offices authorized this department to dispatch cash letters directly to correspondent banks or other service centers for demand deposit computer processing. Eighty-six banking offices now participate in this "interception" program.

The Food Stamp Program is another growing activity in the department. During 1966, ten counties became eligible for assistance under the Department of Agriculture's pro-

gram, joining three previously qualified counties in the District. The department processed 9.8 million canceled food stamp coupons in 1966, an increase of 6.1 million over 1965.

Activities of other divisions, such as non-cash collections and adjustments, were at normal levels during the year. Return items continued to increase, however. In 1966, they reached a daily average of 11,000 items, compared to 7,000 in 1961.



Federal Reserve Banks are empowered to supply funds under prescribed conditions to member banks through extension of credit. The Credit-Discount Department administers loans to member banks. It is also responsible for administration of defense production loans on behalf of Government agencies guaranteeing the loans under the Regulation V Program, and for the adminis-

tration of the Voluntary Foreign Credit Restraint Program. In addition, the department maintains records of the earning assets of the Bank and of the accruals and income thereon, including participations in the System Open Market Account, holdings of Foreign Currencies and Foreign Loans on Gold.

Credit Discount

Usually, a change in the discount rate is the only aspect of the Federal Reserve's lending function that receives public attention. But on September 1, 1966, a statement dealing with System lending policy, having nothing to do with a rate change, did cause much comment because of its unusual nature.

On that date the Board of Governors and the presidents of the 12 Reserve Banks requested the cooperation of member banks in reducing the rate of expansion of business loans. Banks participating in this program would be accommodated for longer periods at the discount window, if they avoided the sale of securities in adjusting their reserve positions, and, if necessary, curtailed business loans.

Some analysts question whether the September 1 statement was effective, for it is generally understood that few banks applied for loans under its special provisions. What is not generally known is that many banks explored its provisions in detail with System discount officers. In any event, before September 1, business loans had been expanding at an annual rate exceeding 20 per cent; at year's end, the rate had retreated to a moderate, sustainable level.

The applicability of the letter was terminated December 27, because the Board felt that its purposes had been served and that changes in the economy made its provisions no longer necessary.

Changes in Procedures To make the discount window a more effective monetary tool, the System is now engaged in a major study formally titled, "Fundamental Reappraisal of the Discount Mechanism." Officers of the Philadelphia Reserve Bank are participating in this effort. Because it is a study in depth,

its findings will be announced over a period of time.

In the meantime, minor changes have been made. In several rulings through the year, for instance, the Board added to the types of "paper" eligible under Regulation A as security for advances. Third District member banks having questions about the eligibility of paper they hold are invited to call the Credit-Discount Department for additional information.

New forms, easier to prepare and more comprehensive than those used previously, expedited our work and reduced processing of collateral by member banks. Telephone requests for credit accounted for more than two-thirds of all advances during the year, up from one-half in 1965. This has practically eliminated "as of" credits: banks receive immediately available funds when borrowing on Government securities collateral held in custody here.

The Volume of Borrowing Approximately one-third of all District member banks borrowed here in 1966, compared to one-fourth in 1965. The number of advances rose about 30 per cent, and total borrowing days went up a like percentage. As a result our average daily balance outstanding rose by \$2 million in 1966.

Member banks began sending us information about their transactions in federal funds and other borrowings in February. These data are extremely useful in helping to appraise market conditions, and they point up the mounting participation of Third District banks in the federal funds market. In the year's final reserve period, more than 150 country banks sold \$170 million in federal funds on a daily



Credit Discount officer Ed Aff, right, reviews a member bank's loan record with Al Spencer as Joe Everman looks on.

average basis.

Discount officers of the 12 Reserve Banks "met" frequently by telephone in 1966, and will continue to do so. This enables them to exchange information, and helps to assure uniformity of Reserve Bank lending practices throughout the Nation.

The VFCR Program The Voluntary Foreign Credit Restraint Program, in its second full year in 1966, is another example of fine cooperation between member banks and this

institution. Working with this department and the Department of Research, banks and other financial institutions in the Third District conscientiously discharged their responsibilities in connection with the drive to mitigate balance of payments problems during the year. New guidelines for 1967 have been mailed to participating institutions, and the department is confident of continuing cooperation.

LENDING ACTIVITY

	1966	1965
Number of Advances to Member Banks	889	691
Dollar Value (Thousands)	\$1,806,298	\$2,085,944
Number of Member Banks Accommodated	135	110

The Data Processing Department is primarily a service unit for other departments of the Bank. It takes source documents from these departments and transcribes them into punch cards that may be sorted, counted,

and recorded by electronic and mechanical equipment. It then produces desired information and necessary records.

Data Processing



Diane James (rear), Rose Taninatz and Helen Byrne, key punch section, transcribe information from source documents onto IBM cards that drive equipment in our Data Processing Department.

The Data Processing Department has provided many new services to member banks since 1941 when the first unit record equipment was installed. A major breakthrough occurred with the introduction of our computer.

After extensive departmental study, our 1401 System was introduced in 1961. Within six months, over 70 operations were being fed into the computer, including member bank reserve accounting and Treasury Tax and Loan data. Now virtually all tabular operations have been converted to computer use.

In 1965, the purchase price and accumulated maintenance charges of our computer system were fully recovered. Thereafter, a monthly maintenance charge was the only

cost prorated among departments. Other tabulating equipment used by the department is now on a lease basis.

Our 1401 computer complex is the smallest (based on memory size and number of accessories) in use in the Federal Reserve System. Yet, this Bank is one of the System's leaders in making diversified applications and providing the greatest variety of services with any computer.

We are not sitting on these laurels, however. Members of the department spent a great deal of time during 1966 conducting feasibility studies and field-testing new equipment to determine whether we should offer new services and purchase other equipment.

Federal Reserve Banks, as Fiscal Agents of the United States, are authorized to accept tax funds either from employers directly or through qualified commercial banks. These tax funds represent withheld income taxes of employes, Social Security taxes of employers

and employes, Railroad Retirement taxes, and certain excise taxes. Regulations and forms are supplied to banking institutions and receipt forms are supplied to employers.

Federal Taxes

As Fiscal Agent for the Treasury, we are authorized to accept tax funds from employers through qualified commercial banks. Beginning June 1, 1966, the Internal Revenue Service required employers withholding more than \$4,000 per month of Social Security and income taxes to deposit these tax funds on a semimonthly, rather than a monthly, basis.

This speed-up in the collection of federal taxes increased the number of depository receipts that we received. Thus, it became even more important for bankers to submit employers' depository receipts to us as rapidly as possible. This enables us to return validated receipts to employers (along with the new receipt) in sufficient time for them to prepare their next deposit.

In December, the Internal Revenue Service again amended its regulations. Effective February 1, 1967, the requirement for semi-monthly deposit of withheld Social Security and income taxes was lowered from \$4,000 to \$2,500. This change will undoubtedly increase the number of receipts we process and put further pressure on bankers to submit deposits as rapidly as possible.



Machines that count, sort, print, select, and perform many other operations run all day long in our Data Processing Department. Here Tom Lawson checks a Federal Tax receipt run.

SUMMARY of TAX RECEIPTS

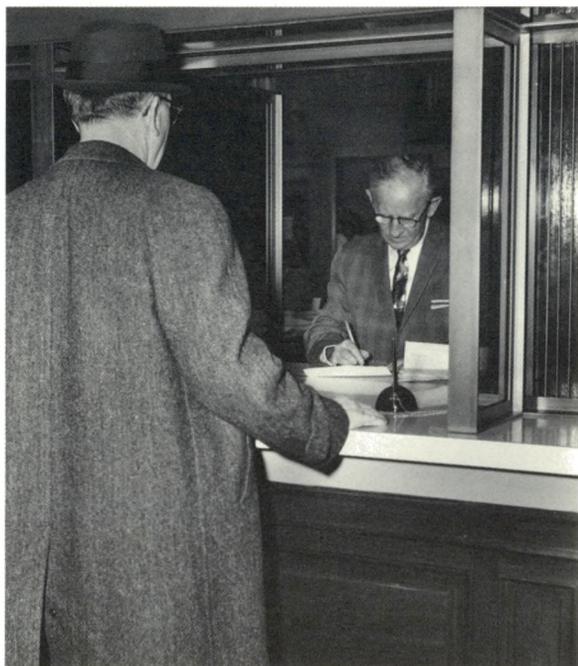
	1966		1965	
	Number of Receipts	Dollar Value (Millions)	Number of Receipts	Dollar Value (Millions)
Total	663,011	\$3,348.0	609,327	\$2,590.2
Withheld and Social Security Taxes	654,033	2,969.2	588,150	2,184.5
Excise Taxes	8,414	316.6	20,648	353.5
Railroad Retirement Taxes	564	62.2	529	55.2

As Fiscal Agents of the United States, Federal Reserve Banks offer for sale to the general public new issues of Treasury marketable securities and conduct re-funding operations. Other activities include the exchange and transfer of bonds and notes, payment of Government and agency coupons, and maintenance of Treasury Tax and Loan Accounts. Reports of activity are prepared for the Treasury Department, and copies of Treasury regulations and forms are supplied to

banking institutions and others in the District. Limited services are rendered to other U. S. Government agencies.

Federal Reserve Banks also act as depositaries for securities owned by member banks. All securities held are serviced as to collection of interest, redemptions, and exchanges. Purchase or sale of any Government security may be effected through this Bank without charge.

Government Bond and Custody



Runner from a Philadelphia member bank gets receipt for a security deposit from Al Carberry.

Negotiable Treasury bonds have borders of grey-black filigree and carry engraved pictures of presidents. Not only do the bonds look like money, they are like money because they and their coupons are payable to the bearer.

That is why those who handle Treasury bonds must employ costly protective measures. But is this expense really necessary? When a customer makes a cash deposit in a commercial bank all he gets is an entry on the bank's books and some sort of receipt.

The same principle might be applied to Government securities, thought Dr. Clay

Anderson of our Research Department, when he wrote to a high Treasury official proposing that Government securities be issued on a book entry basis.

Discussions have been held between the Treasury and the System concerning the application of the book entry plan to Government securities held by the Reserve Banks for various purposes. Eventually the principle might be extended to other securities, including even municipal and corporate issues.

Our Government Bond and Custody Department spent much of 1966 preparing to implement the book entry plan. As the year closed, the department felt it was ready to go ahead any time the Treasury gives the word. Although the book entry plan has many characteristics of a Fiscal Agency function, it will not be subject to reimbursement by the Treasury.

During 1966, the department decided to streamline the paperwork involved in the safekeeping of securities. The new plan abolishes the cumbersome Depositary and Custody document. In effect, Operating Circular 12B, which spells out the terms and conditions of custody, becomes the legal agreement. Depositing banks will simply submit a card certifying that they have read and understand the circular. This new procedure will take effect early in 1967.

In June, the department began placing restrictive endorsements on securities in safekeeping when they are presented for payment to agents within the Third District. The endorsement makes the securities payable only to this Bank and eliminates the need to insure the shipment. This change should save member banks several thousands of dollars a year in premiums.

In line with the Treasury's plan to decentralize some of its operations, this Bank took over several functions previously per-



From left, Gus Kress, Hank Rickert, and Bill Lynn buy and sell "governments" for member banks. Average day's trading involves more than \$2 million.

formed in Washington. One was the redemption of registered Government bonds and bonds submitted in payment of estate taxes.

Another was the exchange of registered bonds for coupon bonds. Localizing this task cuts processing time from about three weeks to three days.

If a Federal agency, such as the Office of Economic Opportunity, wishes to transfer money to a private organization, perhaps one involved in the War on Poverty, it often issues a Letter of Credit. When the beneficiary needs the money, it enters a draft on the letter for

collection as a noncash item at a member bank. This Bank, as Fiscal Agent for the Treasury, reviews the letter and, if all is in order, we charge the Treasury's account and credit the member bank.

Thus, the beneficiary draws money only as needed and does not tie up Treasury funds for long periods, as may happen when cash grants are made.

Letters of Credit processed by this Bank expanded from \$296 million to \$591 million during the year and they now are used by 16 Federal agencies.

VOLUME of ACTIVITY

	1966 (Millions)	1965 (Millions)
Securities in Custody 12/31	\$3,156	\$3,081
Delivered Subscriptions for Marketable Securities	2,323	1,990
Redemptions of Marketable Securities	4,228	4,102

Federal Reserve Banks, as Fiscal Agents of the United States Government, are authorized to issue, reissue, and redeem United States Savings Bonds and United States Retirement Plan Bonds. This Bank qualifies commercial banks and others as agents in the sale of Series E savings bonds, as paying agents of Series A through E bonds and of matured Series F, G, J, and K

bonds. The United States Savings Bond Department processes and pays Armed Forces Leave Bonds. The department furnishes the United States Treasury Department with information relating to sales, reissues, and redemptions of savings bonds and retirement plan bonds.

Savings Bonds

During World War I, individuals bought billions of dollars worth of Liberty Bonds. But many of these patriotic investors were in for a rude shock. Although repayment of principal was guaranteed at maturity, holders had to accept market prices if they wished to dispose of their bonds before maturity.

Reactions ranged from grumbling to outright fury when people got less than face value for supposedly "good-as-gold" Government bonds. At one point \$100 Liberty's sold for only \$81.

In order to protect individual investors from such losses, President Roosevelt introduced the nonmarketable Savings Bond in 1935. After a short waiting period, holders could get their full investment back plus interest from an agent of the United States Treasury.

This feature made Savings Bonds extremely popular in peace and war, and since their introduction about \$170 billion worth have been sold. Over \$50 billion are outstanding at the present time.

In February 1966, the interest rate on Series E and H Savings Bonds was increased from 3.75 per cent to 4.15 per cent. The public responded and pushed up our 1966 sales of Savings Bonds by about eight per cent, reversing a two-year downtrend.

The annual limitations on purchases of E and H Bonds by any one individual were raised in May. The limits now stand at \$20,000 and \$30,000 respectively.

In order further to improve service to investors, the Treasury eliminated the requirement for a calendar month notification before Series H, J, and K Bonds may be redeemed. Now one can get his money in three or four

days, except in the months prior to the semi-annual interest payment. Although all member banks were notified of this change, the department reports that a significant number are not yet taking advantage of it.

The Savings Bond Department began using a computer to price Series E bond redemptions in 1966. The new method not only cut processing time from four to three days but freed two employes for other work.

President Johnson announced in March that a Savings Bond with a bonus rate would be offered to regular purchasers of E bonds. Rumors persisted throughout the year that the newcomer would yield five per cent. Strong opposition developed in Washington, however, and no action was taken in 1966 by the Treasury. Apparently, the rumors of this "magic" rate did not affect the sales of other Savings Bonds which increased substantially both in the District and throughout the Nation.

ISSUED and REDEEMED SAVINGS BONDS

	1966 (Thousands)	1965 (Thousands)
Issued by this Bank (price)		
Series E Bonds	\$ 20,187	\$ 18,142
Series H Bonds	49,737	46,718
Redeemed by this Bank (value)		
Series A-E Bonds	\$319,500	\$317,787
Series F & G Bonds	908	1,500
Series H, J, & K Bonds	60,500	43,119

The Guard Department is responsible for safeguarding Bank property and personnel. Under supervision of a Captain, Lieutenant, and four Sergeants, armed guards

man posts strategically located throughout the Bank. The department also supervises the use of Bank automobiles.

Guards



Jim Simpson and "Bucky" Walters score bull's-eyes at 50 ft. in our underground pistol range. Plaques and certificates in background testify to guard force's prize-winning marksmanship.

It is hard work being a guard. You are on your feet for long hours and although you may feel bored, you must keep alert at all times. Guards in this Bank also have to be knowledgeable and diplomatic, for they are the first to meet and screen visitors, many of whom have confused us with a commercial bank or the Post Office next door.

We consider our guard force to be one of the best and so does the United States Secret Service. Its agents inspected our security procedures and, in a report issued in April, gave our guards a top-notch rating.

While on duty our guards carry .38-caliber pistols and, unlike many other guards and policemen, use them regularly; we have a pistol range in the basement and all guards are required to practice to maintain proficiency.

Many become crack shots and win places on our pistol team which frequently competes in outside matches. In 1966, our "varsity" scored several major victories and in five out of the past six years was Class A champion of the Eastern Pennsylvania Police League.

Within our guard force, a pistol league of eight teams was organized during the year. Response has been enthusiastic and competition keen.

The addition of five new men during the year brought the total force to 54 members. Both summer and winter uniforms were restyled in 1966 for better appearance and comfort. In an organizational change designed to provide continuity of discipline and direction, sergeants were permanently assigned to the same shifts.

The Personnel Department administers Bank policies and programs of employment, job classification, and salary administration, together with payroll operations, including Retirement System and Social Security mat-

ters. Employee counseling, the direction of the cafeteria, the Medical Division, and employe and supervisory development and education are among its other major responsibilities.

Personnel

If automation causes widespread unemployment, as the prophets of pessimism claim, it certainly hasn't happened yet. Only 3.4 per cent of the labor force in the Philadelphia area was unemployed in 1966—the lowest figure in 13 years.

With labor so scarce, the Personnel Department found it difficult to fill the Bank's needs with qualified workers. As an indication of the problem, the number of job applicants decreased 25 per cent from the 1965 total.

The department responded to the challenge by changing old procedures and adopting new ones. It used employment agencies considerably more than in the past and more actively sought members of minority groups.

A number of personnel policies were changed to make us more competitive with other major firms in the area. The result is twofold: it is easier to attract new employes and, more important, it is easier to retain those we already have.

Some examples of these changes are: a more liberal vacation policy, an adjusted differential pay for twilight and night shift workers, and extended hospital insurance coverage. In addition, the Board of Directors approved a four per cent salary increase for all nonofficer employes. Effective in January 1967, this increase brings the Bank's salary grades and pay scales in line with the Delaware Valley average and helps offset loss of purchasing

power due to inflation.

College men and women interested in banking careers were in particularly short supply during the year. To meet this situation, the department continued to recruit on campuses, raised starting salaries for graduates, and participated in "Operation Native Son" which was sponsored by the Junior Chamber of Commerce to inform local residents attending out-of-town colleges of job opportunities in the Philadelphia area.

The success of these and other measures is indicated by the fact that only seven personnel requisitions were unfilled at year's end. Furthermore, turnover increased only slightly to average 19.1 per cent for the year—a low figure for big-city banks and other institutions employing a large proportion of young women.

Despite a tight labor market during 1966, Personnel Officer William James says appointments to the Bank's staff were made without modifying requirements and standards for new personnel.

Medicare was the other big problem for the department in 1966. Our existing health insurance plans for retirees had to be integrated with Medicare coverage, and the task kept several employes busy for the better part of the year. In effect, the Bank now pays for the private health insurance which supplements Medicare for eligible retirees 65 and older.



Personnel Officer Bill James (center) discusses a job applicant's qualifications with staff members Bertha Strockbine and Joe Joyce.

EMPLOYMENT FIGURES

	1966	1965
Full Time Employees 12/31	842	851
Appointments	153	124
Separations	162	150
Annual Turnover Rate	19.1%	17.6%

The principal functions of the Department of Research are to keep abreast of local and national economic developments, to provide basic data and analyses needed in the formulation of Federal Reserve policy,

to study the techniques of central banking, and to contribute to the public's understanding of monetary policy and the workings of the economy.

Research

An *Annual Report* is an unwieldy vehicle in which to convey an account of research operations. The raw materials of research are essentially ideas; frequently the products of research are compounds of those ideas. Output is difficult to account for in precise numbers, and is not confined within one calendar year.

Thus, the great bulk of the activity of the Department of Research is a continuing process that transcends boundaries of time. An example is our increasing involvement in investigations dealing with formulation of monetary policy.

For many years a group of our staff economists has met regularly to help President Bopp prepare for meetings of the Federal Open Market Committee. In 1966 this group was enlarged and now it digs deeper into the workings of our economy, offering to Mr. Bopp a wider range of subject matter—and ideas—for his consideration. Members of the staff also brief the Board of Directors of this Bank concerning economic and financial developments pertinent to a decision on the discount rate.

The staff continued to take part in System studies. In 1966 they participated in a study titled, "A Fundamental Reappraisal of the

Discount Mechanism." Two of our assignments involved the municipal securities market in relation to bank liquidity, and an investigation into lessons to be learned from past use of the discount window.

Regional analysis was given increasing emphasis in 1966. Partly in cooperation with the Greater Philadelphia Movement, Penjerdel, and the University of Pennsylvania, our staff members investigated various economic problems of the eight-county metropolitan Philadelphia area. These studies assessed the relative advantages and disadvantages of the Philadelphia area as an industrial center compared to similar competing areas throughout the Nation.

In future, the department plans to study other economic areas in the Third Federal Reserve District. The objective will be impartial analyses of the economic strengths and weaknesses of these areas, hopefully with a view to making the information available to bankers and local planning groups as a basis for their further action.

Much of the work of the department involves statistical compilation and analysis, frequently involving the use of an electronic



Research automation: From left, Judy Helmuth, Grace Hamilton, and Judy Caplan operate data-storing equipment and card-reader. Printer (off camera) will deliver desired information in a fraction of the time that former methods took.

computer. In order to improve the effectiveness of its computer, the department added memory capacity and changed the configuration to include random access disk drives. This permits quicker and more extensive study of bank and other financial data, and enables the department to respond to a wider range of needs for statistical information.

Thirty articles prepared by staff members

and other bank employees appeared in the *Business Review* during the year. The average monthly circulation of the *Review* reached almost 20,000 in 1966, an all-time high. Evan B. Alderfer, Economic Adviser to the Bank, retired at year's end, but has accepted the post of Editorial Consultant for the monthly magazine.

The Vault Department is responsible for the custody and servicing of United States Government and other securities and the storing of currency and coin. Dual control and in some cases triple control measures are

employed to provide maximum security. Coupons are cut at interest periods according to instructions. Deposits and withdrawals are permitted only upon receipt of authorized instructions from originating departments.

Vault

In the Middle Ages, merchants built sturdy chests of hard wood banded with wrought iron to protect their valuables. Later, pirates were also interested in security and made a habit of burying similar chests on uninhabited, tropical islands.

This Bank's "chests" are buried, too. Our vaults rest deep in the ground underneath 925 Chestnut Street. One has a 50-ton circular steel door; the other is secured with a rotary steel unit weighing more than 80 tons.

The walls, ceilings, and floors of both vaults are made of reinforced concrete. Each vault is raised on I beams, providing a lighted air space underneath which can be viewed through a series of mirrors. Even if tunneling efforts were not detected in this manner, any attempt to pierce the floor or walls would trigger a sensitive alarm system and alert security officials within and without the Bank.

A closed-circuit television system monitored by the guard control center permits full view of the foyer between the two vaults and the vault doors. In addition, one of the Bank guards is on duty in the foyer at all times.

The Vault Department is a busy place. A record volume of nearly 2.1 million coupons



Federal Reserve Banks are subject to regular examination. Here staff examiners of the Board of Governors go through securities in the Bank's south vault.

were cut from securities by department personnel in 1966. Many other daily transactions involving issuing and receiving coin and currency and exchanging denominations of securities entail not only efficiency, but strict security procedures as well.

Vault Inventory

	1966 (Millions)	1965 (Millions)
Total	\$15,593.7	\$14,345.4
Unissued Government Securities Stock	11,764.4	10,641.8
Securities Held for Banks	3,138.5	3,063.3
All Other Securities	25.5	25.5
Unissued Federal Reserve Notes Held for Federal Reserve Agent	620.7	525.2
Vault Tellers Cash	44.6	89.6

The Federal Reserve System, in participation with other Government agencies and departments, has been assigned certain responsibilities in the formulation of emergency financial and stabilization policies including, but not limited to, programs for continuity of its operations and the Nation's banking system under

emergency conditions. As a part of basic System planning, this Bank maintains a Relocation Office to which copies of vital records are sent daily. Emergency operating programs have been developed for essential functions and are under continuous review.

Emergency Planning

Lewisburg is a small town in central Pennsylvania and the home of Bucknell University. Geographically, it is far removed from the City of Philadelphia and this Federal Reserve Bank. Yet, a red brick dormitory on the university campus is extremely vital to us and to the banking community.

You see, the Federal Reserve System has been given certain responsibilities to develop and maintain security preparedness programs that will assure continuity of System operations and the Nation's banking network under emergency conditions. To that end, each Reserve Bank has established a Relocation Office as a depositary for essential records which would enable an advance cadre to reconstruct the Reserve Bank's balance sheet and activate essential operations should something happen to the main office or branch.

Our Relocation Office is located in the basement of that dormitory in Lewisburg. We selected this site because of its distance from important military and industrial complexes. A limited amount of food and water is stockpiled there.

Each day we send copies of vital records to the Relocation Office where a permanent staff processes and stores them in accordance with retention schedules.

Each bank in our District has been issued manuals of emergency instructions telling how to conduct their daily transactions with us in the event of an emergency. In addition, we have designated banks throughout the District as Cash and Check Agents. Their job is to distribute cash and to clear checks within a specific area during a national emergency.

At least once each year employees of this Bank visit the Relocation Office to test our emergency operating programs. In 1966, for example, they reconstructed the System's Open Market Account from the records in Lewisburg. They also distributed "test decks" of checks and currency transactions to selected banks in the District for processing in accordance with emergency instructions. Subsequent review of the tests disclosed very few errors.

In addition to the departments reported previously, there are several smaller departments that provide

important services for the entire Bank.

Other Departments

Filing The Filing Department assists in processing, maintaining, and destroying departmental records; it also codes, sorts, and safekeeps documents relating to the purchase, redemption, and reissue of United States Savings Bonds. In 1966, for example, 54 thousand bond applications and carbon copies of certain Treasury checks were filed.

Legal Vice President and General Counsel James V. Vergari and Assistant Counsel Walter J. Brobyn direct the Bank's legal affairs and provide legal assistance to other officers and departments. Since the introduction of Regulation F by the Board of Governors in 1965, this department has maintained information on stock ownership and related matters for state chartered, insured banks with 750 or more stockholders. This information is available to the public.

Printing Our Printing Department has the capability to perform each phase of the printing process including composition, platemaking, printing, and bindery operations on the premises. During the past few years, the department has switched from letterpress to offset printing equipment, increasing the speed and the volume of production. In 1966,

the department printed over 8 million impressions using offset equipment.

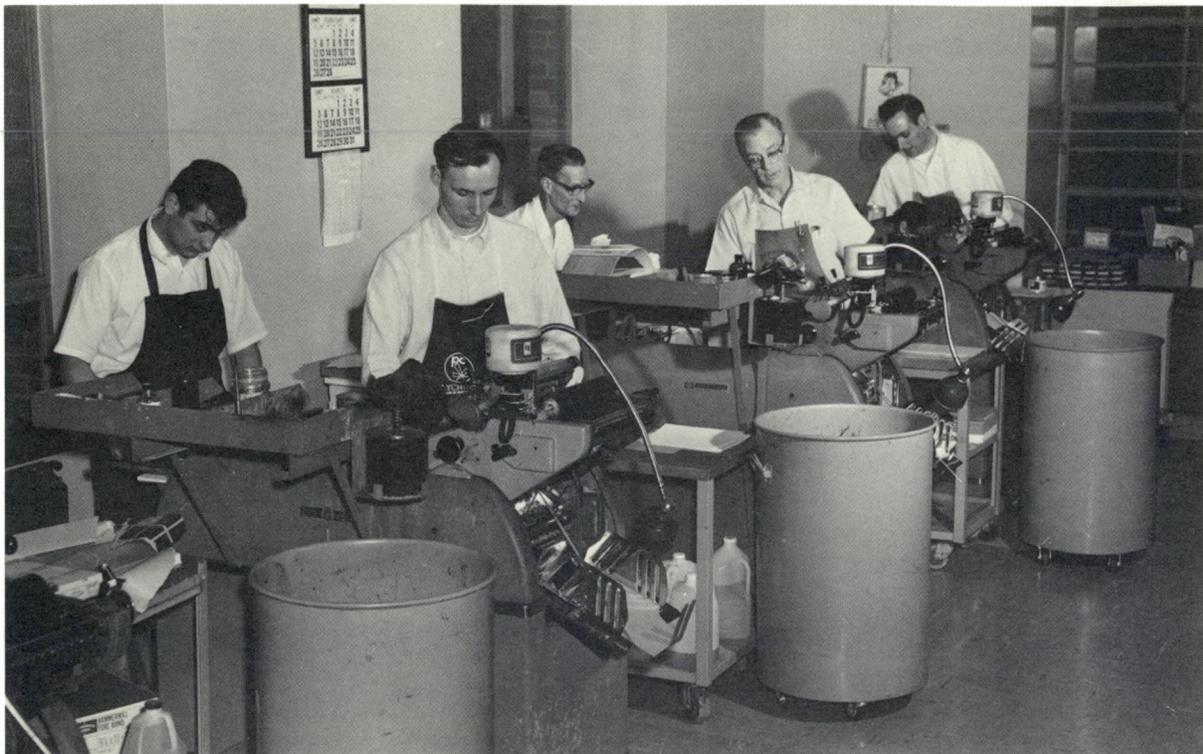
In addition to preparing printed matter for each department in the Bank, the department also maintains addressograph files, prints and distributes the Bank's Operating Circulars, circular letters, the Directory of Third Federal Reserve District Banking Institutions, and Regulations of the Board of Governors.

Purchasing The Bank's Purchasing Department acquires the equipment, supplies, and services necessary to conduct the Bank's activities. The department also maintains an inventory of all Bank-owned equipment and records of maintenance and repair. The supply division of the department supervises storage and distribution of Bank publications, forms, and supplies. In 1966, more than 1.2 million copies of Bank publications were distributed by supply personnel.

Telephone The voice of the Bank, the Telephone Department places all outgoing calls and assigns priority to private wire calls. It also indicates proper functional charges on toll calls. Over 200 thousand message units were used in 1966.



Good food at modest prices is served every working day in our attractive employees' cafeteria.



"We Print Everything But Money," might well be the motto of our Printing Department. Print shop is equipped for the total job, from artwork and platemaking through collating and binding.



Nurse Marie McCloskey reads employe Joan Carter's temperature as Nurse Kay Magin prepares some medication. A medical doctor is also on hand every morning in the Bank's dispensary.

System committees determine many operating policies and help solve certain mutual problems for the Federal Reserve Banks. Senior Reserve Bank officers and

members of the Board of Governors' staff are the usual members. Not every Bank, however, is represented on each committee.

System Committees



Vice President and General Counsel Jim Vergari on his way to the airport and a Conference of Presidents' subcommittee meeting on improving the payments mechanism. Bank officers spend considerable time in System activities.

The Conference of Presidents brings together the chief executive officers of the 12 Reserve Banks. It meets in Washington, D. C., at least four times a year. The Conference may deal with almost any topic of more than local

interest except the determination of monetary policy, which is the province of the Federal Open Market Committee and the Board of Governors.

The organization of the Conference includes 12 standing committees of three presidents each. These committees may appoint one or more subcommittees made up of System personnel other than presidents.

Other committees, such as the System Research Advisory Committee, the Insurance Committee, and the Retirement Committee are quite similar in purpose and personnel to Conference committees but operate more or less independently or in closer affiliation with the Board of Governors.

From time to time other ad hoc committees and groups are formed to deal with non-recurring matters or to conduct special research. An example of the latter is the Fundamental Reappraisal of the Discount Mechanism, a comprehensive study which is expected to take several years.

Work connected with System committees may require considerable time over and above attendance at meetings. Although we have no formal tabulation, the impression is strong that our officers are more active in System committees than are the officers of most Reserve Banks. This Bank's participation for the year 1966 is detailed below. (Conference of Presidents subcommittees are designated by the initials C.O.P.; service is as a member unless otherwise indicated.)

KARL R. BOPP, President

Federal Open Market Committee

Steering Committee, Fundamental Reappraisal of the Discount Mechanism

Conference of Presidents (Chairman for year ending 2/28/66, member thereafter)

Committees of the Conference of Presidents:

Chairman, Committee on Bank and Public Relations

Committee on Collections

Committee on Committees

Committee on Fiscal Agency Operations

Trustee (Ex Officio), Retirement System of the Federal Reserve Banks:

Investment Committee of the Retirement System

ROBERT N. HILKERT, First Vice President
C.O.P., Subcommittee on Personnel (Former Chairman)
Retirement System of the Federal Reserve Banks:
Retirement Committee

HUGH BARRIE, Vice President
C.O.P., Subcommittee on Methods and Automation

NORMAN G. DASH, Vice President
C.O.P., Subcommittee on Fiscal Agency Operations
Alternate, Insurance Committee

DAVID P. EASTBURN, Vice President
C.O.P., Subcommittee on Bank Supervision and Legislation
C.O.P., Ad Hoc Subcommittee to Study Regionalism
System Research Advisory Committee:
Committee on Banking and Credit Policy

DAVID C. MELNICOFF, Vice President
Chairman, C.O.P., Subcommittee on Bank and Public Relations
Secretariat, Fundamental Reappraisal of the Discount Mechanism

HARRY W. ROEDER, Vice President
C.O.P., Subcommittee on Currency and Coin
C.O.P., Ad Hoc Subcommittee to Study Extension of Reserve Bank
Services Across District or Branch Boundaries

JAMES V. VERGARI, Vice President and General Counsel
C.O.P., Subcommittee on Collections
C.O.P., Subcommittee on Improving the Payments Mechanism
Insurance Committee:
Subcommittee on Counsel of the Insurance Committee

EDWARD A. AFF, Assistant Vice President
System Research Advisory Committee:
Committee on Education and Publications

LAWRENCE C. MURDOCH, JR., Assistant Vice President
Secretary, Conference of Presidents (Year ending 2/28/66)

KENNETH M. SNADER, Assistant Vice President
System Research Advisory Committee:
Committee on Current Reporting Series
Committee on Computers in Research

EVAN B. ALDERFER, Economic Adviser
System Research Advisory Committee:
Committee on Business Analysis

JACK C. ROTHWELL, Economist
System Research Advisory Committee:
Committee on Financial Analysis

FRED A. MURRAY, Director of Plant
C.O.P., Subcommittee on System Purchasing Procedures

EMERSON M. SEWARD, Audit Department
Trustee, Retirement System of the Federal Reserve Banks

A number of internal committees have been organized to make certain decisions and determine policies. In

addition, several larger groups of officers and employees meet to discuss problems and exchange information.

Intrabank Committees



Research Vice President David P. Eastburn, head of table, presides at regular conference of Staff Policy Group which helps President Bopp prepare for Federal Open Market Committee meetings in Washington.

The President convenes the Officers Council, consisting of all the Bank's 30 officers, when he wishes to bring certain matters to their attention or to invite comments and criticisms. The council also meets to hear and question distinguished visitors from within and without the System.

The Department Heads Conference includes members from 20 departments representing every function in the Bank. The purpose is to interchange views and information during regular monthly meetings. Officers of this

Bank often attend the conference to describe their departments' functions, policies, and problems.

In no way do the internal committees of this Bank usurp the responsibilities of those charged with the management of the various departments. We use committees primarily in situations which call for group judgment or for blending different skills and professional experiences. The membership of the Bank's major committees is listed on the next page.

BUDGET COMMITTEE

H. W. ROEDER, *Chairman*
R. P. SUDDERS, *Secretary*
H. BARRIE
J. V. VERGARI
R. G. WILGUS

DISCOUNT COMMITTEE

K. R. BOPP, *Chairman*
A. SPENCER, *Secretary*
E. A. AFF
J. R. CAMPBELL
D. P. EASTBURN
R. N. HILKERT
D. C. MELNICOFF
R. P. SUDDERS
J. V. VERGARI

EMERGENCY PLANNING COMMITTEE

H. W. ROEDER, *Chairman*
R. P. SUDDERS, *Secretary*
E. A. AFF
J. R. CAMPBELL
J. V. VERGARI

JOB EVALUATION COMMITTEE

D. P. NOONAN, *Chairman*
E. G. BATTISTA
C. P. BREHM
A. A. KUDELICH
S. W. LINTON
J. F. LOGAN
J. A. MASLAND
E. M. SEWARD
K. M. SNADER

OPERATIONS COMMITTEE

J. V. VERGARI, *Chairman*
J. P. BESSE, *Secretary*
H. BARRIE
N. G. DASH
R. E. HAAS
H. W. ROEDER

PERSONNEL COMMITTEE

R. N. HILKERT, *Chairman*
W. A. JAMES, *Secretary*
N. G. DASH
H. W. ROEDER
J. V. VERGARI
R. G. WILGUS

PURCHASING COMMITTEE

R. G. WILGUS, *Chairman*
H. J. NELSON, *Secretary*
H. BARRIE
N. G. DASH
F. A. MURRAY

SPACE COMMITTEE

R. G. WILGUS, *Chairman*
F. A. MURRAY, *Secretary*
H. BARRIE
N. G. DASH
J. V. VERGARI

STAFF POLICY GROUP

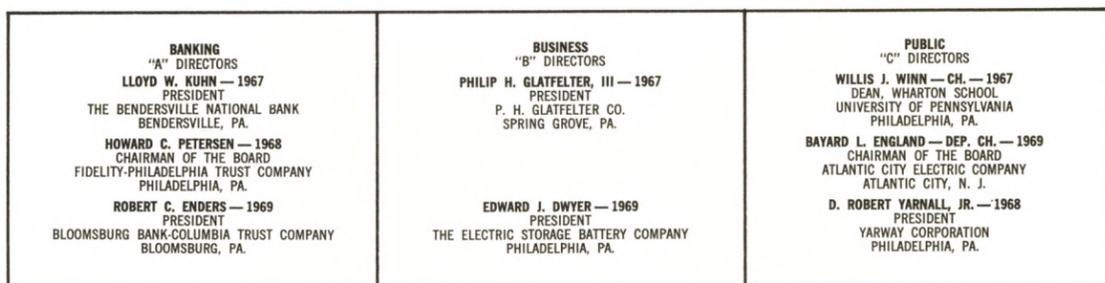
D. P. EASTBURN, *Chairman*
D. C. MELNICOFF
E. A. AFF
L. C. MURDOCH
K. M. SNADER
Staff economists

TRAINING AND DEVELOPMENT COMMITTEE

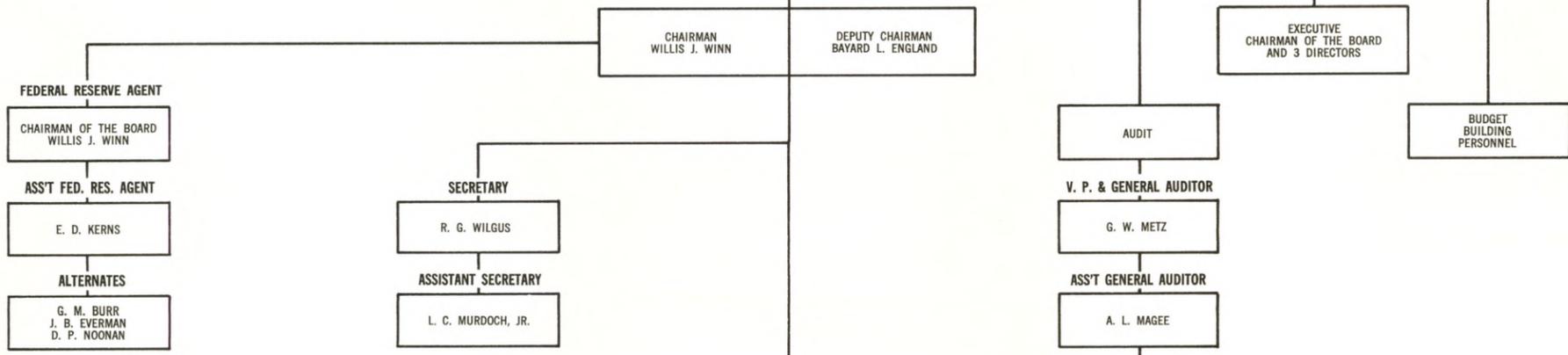
R. N. HILKERT, *Chairman*
W. A. JAMES, *Secretary*
E. A. AFF
J. R. CAMPBELL
D. P. EASTBURN
W. R. MOLL
H. W. ROEDER
R. G. WILGUS

FEDERAL RESERVE BANK OF PHILADELPHIA

BOARD OF DIRECTORS



COMMITTEES OF THE BOARD



PRESIDENT

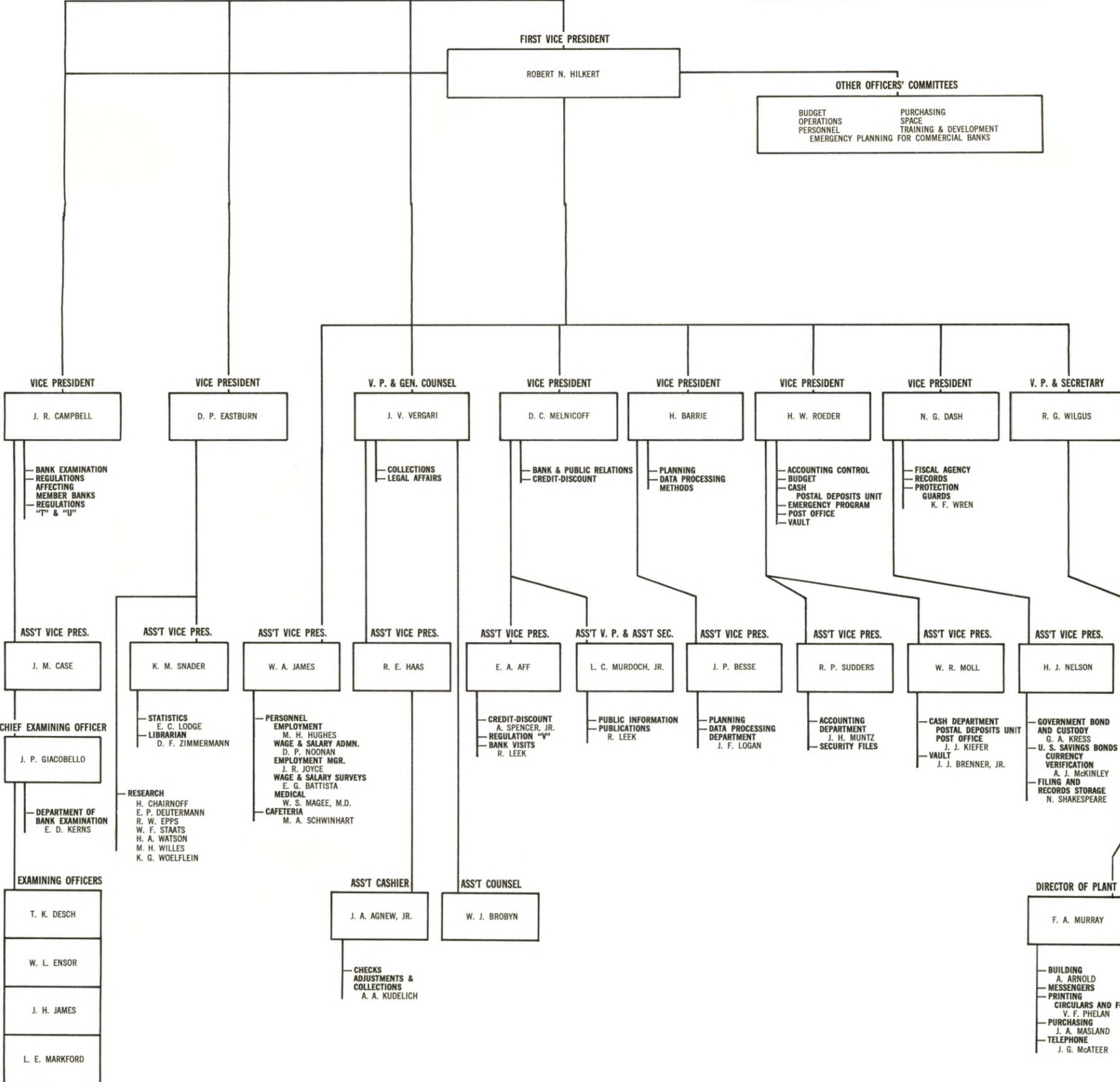
KARL R. BOPP



FIRST VICE PRESIDENT

ROBERT N. HILKERT

OTHER OFFICERS' COMMITTEES



MARCH 16, 1967

**FIFTY-SECOND ANNUAL STATEMENT
OF THE FEDERAL RESERVE BANK
OF PHILADELPHIA**

COMPARISON OF EARNINGS AND EXPENSES

Current Earnings:

	1966	1965
From U. S. Government securities	\$ 95,513,283.30	\$ 79,596,235.82
From discounts and advances and miscellaneous sources	1,862,289.49	1,317,705.57
Total current earnings	97,375,572.79	80,913,941.39

Net Expenses:

Operating expenses (after deducting reimbursable or recoverable expenses)	8,501,070.34	8,571,373.81
Federal Reserve currency	1,294,992.91	1,347,929.22
Assessments for expenses of the Board of Governors	483,300.00	473,000.00
Total net expenses	10,279,363.25	10,392,303.03

Current Net Earnings 87,096,209.54 70,521,638.36

Additions to current net earnings:

Miscellaneous non-operating income	93,123.26	59,393.45
Total additions	93,123.26	59,393.45

Deductions from current net earnings:

Loss on sales of U. S. Government securities (net)	127,323.86	330.93
Miscellaneous non-operating expenses	2,618.92	4,721.07
Total deductions	129,942.78	5,052.00

Net deductions (additions) 36,819.52 (54,341.45)

Net earnings before payment to U. S. Treasury 87,059,390.02 70,575,979.81

Dividends Paid	1,790,166.93	1,752,341.00
Paid to U. S. Treasury (interest on Federal Reserve notes)	84,885,673.09	68,392,238.81
Transferred to Surplus	383,550.00	431,400.00
	\$ 87,059,390.02	\$ 70,575,979.81

COMPARATIVE STATEMENT OF CONDITION

ASSETS

GOLD CERTIFICATE RESERVES:

	Dec. 31, 1966	Dec. 31, 1965
Gold certificate account	\$ 698,901,939.93	\$ 787,148,659.01
Redemption fund—Federal Reserve notes	96,258,341.16	93,751,469.16
Total Gold Certificate Reserves	795,160,281.09	880,900,128.17

FEDERAL RESERVE NOTES OF OTHER FEDERAL RESERVE BANKS

	48,058,230.00	65,515,728.00
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OTHER CASH

	6,772,654.79	6,473,512.51
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LOANS AND SECURITIES:

Discounts and advances	545,000.00	3,826,000.00
United States Government securities	2,289,202,000.00	2,114,399,000.00
Total Loans and Securities	2,289,747,000.00	2,118,225,000.00

OTHER ASSETS:

Cash items in process of collection	541,949,515.85	483,808,279.56
Bank premises	2,509,967.86	2,586,569.50
All other	64,123,234.72	51,051,740.52

TOTAL ASSETS	3,748,320,884.31	3,608,560,958.26
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LIABILITIES

NOTE LIABILITIES:

Federal Reserve notes	2,305,966,989.00	2,241,279,528.00
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DEPOSITS:

Member bank—reserve accounts	896,032,697.06	858,407,688.24
United States Government	504,908.06	38,326,192.37
Foreign	8,640,000.00	8,400,000.00
All other	8,599,445.59	6,307,471.02

Total Deposits	913,777,050.71	911,441,351.63
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OTHER LIABILITIES:

Deferred availability cash items	456,784,718.25	387,171,933.11
All other	11,933,926.35	9,577,045.52

TOTAL LIABILITIES	3,688,462,684.31	3,549,469,858.26
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CAPITAL ACCOUNTS:

Capital paid in	29,929,100.00	29,545,550.00
Surplus	29,929,100.00	29,545,550.00

TOTAL LIABILITIES AND CAPITAL ACCOUNTS	\$3,748,320,884.31	\$3,608,560,958.26
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CAPITAL STOCK ACCOUNT

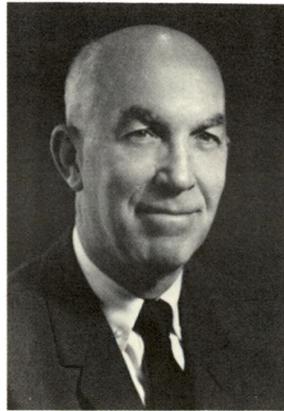
(Representing amount paid in, which is 50% of amount subscribed)
(Dollar amounts in thousands)

	<u>1966</u>		<u>1965</u>		<u>1964</u>	
	<u>Shares</u>	<u>Dollar Amount</u>	<u>Shares</u>	<u>Dollar Amount</u>	<u>Shares</u>	<u>Dollar Amount</u>
Paid in—January 1	590,911	\$29,545	582,283	\$29,114	552,463	\$27,623
Issued during year:						
To new member banks	495	25	750	38
Increases in capital and surplus	15,210	761	22,449	1,122	34,100	1,705
Cancelled during year:						
Mergers, absorptions or other cessations of mem- bership	7,523	376	14,265	713	5,030	252
Surrender of stock through reduction of capital and surplus	<u>16</u>	<u>1</u>	<u>51</u>	<u>3</u>
Paid in—December 31	<u>598,582</u>	<u>\$29,929</u>	<u>590,911</u>	<u>\$29,545</u>	<u>582,283</u>	<u>\$29,114</u>

DIRECTORS



Willis J. Winn
Chairman



Bayard L. England
Deputy Chairman

Chairman

WILLIS J. WINN, Dean
Wharton School of Finance and Commerce, University of Pennsylvania
Philadelphia, Pa.

Deputy Chairman

BAYARD L. ENGLAND, Chairman of the Board
Atlantic City Electric Company
Atlantic City, N. J.

EDWARD J. DWYER
President
The Electric Storage Battery Company
Philadelphia, Pa.

LLOYD W. KUHN
President
The Bendersville National Bank
Bendersville, Pa.

ROBERT C. ENDERS
President
Bloomsburg Bank-Columbia Trust
Company
Bloomsburg, Pa.

HOWARD C. PETERSEN
Chairman of the Board
Fidelity-Philadelphia Trust Company
Philadelphia, Pa.

PHILIP H. GLATFELTER, III
President
P. H. Glatfelter Co.
Spring Grove, Pa.

D. ROBERT YARNALL, JR.
President
Yarway Corporation
Philadelphia, Pa.

MEMBER OF FEDERAL ADVISORY COUNCIL

HAROLD F. STILL, JR., President, Central-Penn National Bank of Philadelphia, Philadelphia, Pa.

OFFICERS



Karl R. Bopp
President



Robert N. Hilkert
First Vice President

KARL R. BOPP, *President*

ROBERT N. HILKERT, *First Vice President*

HUGH BARRIE, *Vice President*

J. R. CAMPBELL, *Vice President*

N. G. DASH, *Vice President*

D. P. EASTBURN, *Vice President*

D. C. MELNICOFF, *Vice President*

G. W. METZ, *Vice President and General Auditor*

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R. G. WILGUS, *Vice President and Secretary*

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J. P. BESSE, *Assistant Vice President*

J. M. CASE, *Assistant Vice President*

R. E. HAAS, *Assistant Vice President*

W. A. JAMES, *Assistant Vice President*

W. R. MOLL, *Assistant Vice President*

L. C. MURDOCH, JR., *Assistant Vice President
and Assistant Secretary*

H. J. NELSON, *Assistant Vice President*

K. M. SNADER, *Assistant Vice President*

R. P. SUDDERS, *Assistant Vice President*

J. P. GIACOBELLO, *Chief Examining Officer*

T. K. DESCH, *Examining Officer*

W. L. ENSOR, *Examining Officer*

J. H. JAMES, *Examining Officer*

L. E. MARKFORD, *Examining Officer*

W. J. BROBYN, *Assistant Counsel*

J. A. AGNEW, JR., *Assistant Cashier*

F. A. MURRAY, *Director of Plant*

A. L. MAGEE, *Assistant General Auditor*

March 16, 1967